

Message Text

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TO AMEMBASSY QUITO

C O N F I D E N T I A L STATE 220630

E.O. 11652: GDS

TAGS:EAIR, PFOR, EC

SUBJECT: AID PHASEOUT PLAN

REF: A. QUITO 6223; B. STATE 197229

SUMMARY - THE PURPOSE OF THIS MESSAGE IS TO PROVIDE A DETAILED RESPONSE TO THE PROPOSALS AND REQUEST FOR ADDITIONAL GUIDANCE CONTAINED IN REF A. PERSONNEL AND ADMINISTRATIVE PLANNING ASPECTS OF THE PHASEOUT CAN BE DEALT WITH SUBSEQUENTLY WHEN THE SUBSTANCE OF THE PLAN HAS BEEN DETERMINED. WE WILL COMMENT FIRST ON THE GENERAL ISSUES AND THEN MOVE TO THE SPECIFIC SUBSTANTIVE AREAS OF THE PROGRAM.

2. LIMITATION ON LOCAL COSTS - REF B STATED THAT THE PROPOSED TECHNICAL ASSISTANCE LOAN WOULD BE LIMITED TO CONFIDENTIAL

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EXTERNAL COSTS ONLY. THIS STIPULATION WAS BASED PRIMARILY ON FACT THAT USE OF OUR SCARCE ASSISTANCE FUNDS FOR LOCAL COST FINANCING VIRTUALLY IMPOSSIBLE TO JUSTIFY IN VIEW OF GOE'S PRESENT FINANCIAL SITUATION AND THAT INCLUSION SUCH

FINANCING WOULD MAKE OUR TECHNICAL ASSISTANCE LOAN PACKAGE MUCH MORE DIFFICULT TO EXPLAIN AND DEFEND WITH CONGRESS. IN ADDITION, WE BELIEVE THAT FULL ECUADOREAN LOCAL COST PARTICIPATION IS AN ESSENTIAL PART OF THE PHASEOUT PLAN SINCE IT WOULD REQUIRE THE GOE TO START PAYING A LARGER SHARE OF THE TOTAL TECHNICAL ASSISTANCE BILL. FINALLY IF THE GOE IS UNWILLING TO PICK UP LOCAL COSTS AT THIS POINT, SEEMS MOST UNLIKELY IT WOULD BE PREPARED DO SO WHEN THE LOAN IS FULLY DISBURSED. THEREFORE WE DO NOT CONCUR IN THE PROPOSAL TO FINANCE DOLS 300,000 IN LOCAL COSTS UNDER THE PROPOSED TECHNICAL ASSISTANCE LOAN.

3. TECHNICAL ASSISTANCE LOAN FOR TRANSITION - REF (A) DOES NOT CONTAIN SPECIFIC PROPOSALS FOR UTILIZING UP TO DOLS 3 MILLION FOR LOAN PROJECTS AND SUGGESTS THAT WORTHWHILE PROJECTS MAY TURN UP IN THE COURSE OF THE NEGOTIATIONS TO MAKE UP AT LEAST PART OF THE TOTAL. THE DOLLARS 3 MILLION FIGURE CONTAINED REF B WAS INTENDED AS A LIMIT, NOT A GOAL, AND WE DO NOT BELIEVE THAT IT SHOULD BE CITED TO THE GOE. INSTEAD WE BELIEVE APPROACH TO GOE SHOULD MAKE CLEAR THAT WE WOULD ENTERTAIN SPECIFIC PROPOSALS, CLOSELY GEARED TO THE LINES OF ACTIVITY WE HAVE PREVIOUSLY BEEN FOLLOWING, WHICH DURING THE NEGOTIATING PROCESS COULD BE TURNED INTO VIABLE LOAN COMPONENTS. THIS DOES NOT MEAN THAT WE WOULD NOT BE PREPARED TO ENTERTAIN OTHER IDEAS PRESENTED BY THE GOE, BUT SIMPLY, THAT THE EMPHASIS SHOULD BE ON SPECIFICS AND NOT ON DOLLAR LEVELS OF ASSISTANCE. IN DEVELOPING LOAN FINANCED TECHNICAL ASSISTANCE PROPOSALS IT WILL BE IMPORTANT TO STRUCTURE THE PROJECTS SO THAT THEY WILL REACH A LOGICAL AND DEFENSIBLE CUT OFF POINT AT THE END OF FY 77 IN THE EVENT THE GOE DOES NOT CONTINUE FUNDING. WE WANT TO AVOID ACTIVITIES THAT COULD BE LEFT HANGING IN MID-AIR ON JUNE 30,1977 AND SUBJECT TO JUSTIFIABLE CRITICISM.

4. LOAN STRUCTURE - WE CONCUR IN THE RECOMMENDATION THAT
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WE TRY TO PACKAGE ALL LOAN FINANCED TECHNICAL ASSISTANCE ACTIVITIES IN A SINGLE LOAN. LOAN DOCUMENTATION WOULD HAVE TO INCLUDE DETAILED SUBPROJECT DESCRIPTIONS AND PLANS DESCRIBING SERVICES TO BE FUNDED AND COST ESTIMATES THEREFOR. PRESUMABLY FOR SOME ACTIVITIES EXISTING PROPS WOULD SERVE AS A STARTING POINT FOR DEVELOPING SUBPROJECT DOCUMENTATION. PACKAGING A VARIETY OF TECHNICAL ASSISTANCE ACTIVITIES IN A SINGLE LOAN WITH A TIGHT DEADLINE MAY INVOLVE SERIOUS PROBLEMS IN GETTING ALL ACTIVITIES READY AT THE SAME TIME. THEREFORE WE SUGGEST THAT THE POSSIBILITY OF USING MORE THAN ONE LOAN PACKAGE BE KEPT IN RESERVE AS SPECIFIC SUBPROJECTS ARE PREPARED AND TIMING PROBLEMS EMERGE. IT WOULD BE

DESIRABLE IF THE IRR COULD BE PREPARED AND SUBMITTED TO AID/W BY DECEMBER 1974, HOWEVER, THE SPECIAL CIRCUMSTANCES OF THE TRANSITION TECHNICAL ASSISTANCE LOAN MAY MAKE LATER SUBMISSION NECESSARY. USAID SUGGESTIONS WOULD BE APPRECIATED.

5. PL 480 TITLE II - EVEN IN THE ABSENCE OF A PHASEOUT SITUATION, ECUADOREAN PROGRAMS ARE FACED WITH A GENERAL SHORTAGE OF TITLE II COMMODITIES. IN LIGHT OF WORLDWIDE REQUIREMENTS AND ECUADOR'S FAVORABLE FINANCIAL SITUATION, THE INTER-AGENCY STAFF COMMITTEE SUBCOMMITTEE HAS AGAIN CONSIDERED ECUADOR'S TITLE II PROGRAM. A FIRM DECISION WAS REACHED THAT SCHOOL FEEDING PROGRAMS WILL BE REDUCED BELOW CURRENT LEVELS BEGINNING IN SECOND HALF FY 75, THAT THERE WILL BE FURTHER REDUCTIONS IN FY 1976, AND THAT THIS WOULD BE THE FINAL YEAR FOR THIS PROGRAM. IT IS ALSO DOUBTFUL THAT OTHER TITLE II PROGRAMS WILL BE AUTHORIZED BEYOND FY 1976. A SEPARATE MESSAGE GIVING DETAILS CONCERNING RECIPIENTS AND COMMODITIES WILL FOLLOW SHORTLY. WE DO NOT SEE ANY POSSIBILITY OF TITLE I ASSISTANCE BEING MADE AVAILABLE EITHER AS A COMPLEMENT OR FOLLOW ON TO TITLE II ASSISTANCE.

6. HOUSING INVESTMENT GUARANTEES (HIG) - HIG RESOURCES FOR THE PURPOSES OF THE PHASEOUT PLAN ARE CONSIDERED IN THE SAME LIGHT AS OTHER FORMS OF CAPITAL ASSISTANCE, AND THEREFORE NO FURTHER HIGS
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ARE CONTEMPLATED. WE WILL, OF COURSE, BE PREPARED TO CONSIDER TECHNICAL ASSISTANCE IN THE HOUSING AREA ON THE SAME TERMS AS ANY OTHER REIMBURSABLE ASSISTANCE.

7. EDUCATION - THE EDUCATION SECTOR APPEARS TO OFFER THE MOST INTERESTING AREA FOR A MEANINGFUL PHASEOUT TRANSITION LOAN SINCE IT IS THE AREA IN WHICH WE HAVE FOR MANY YEARS BEEN MOST HEAVILY INVOLVED AND IN WHICH OUR PRESENT PROJECT PLANNING IS MOST ADVANCED. OUR UNDERSTANDING IS THAT THERE ARE PENDING TWO PROPS, ONE IN NONFORMAL EDUCATION AND ONE IN PRIMARY EDUCATION, IN WHICH THE USAID HAS PROPOSED PROGRAMS EXTENDING THROUGH FY 77. THESE PROPS HAVE BEEN HELD IN ABEYANCE PENDING DECISIONS ON THE PHASEOUT PLAN. WE PROPOSE THAT APPROPRIATE MODIFICATIONS BE MADE OF THESE PROPS SO THAT WE COULD CARRY ONGOING ACTIVITIES THROUGH FY 75 ON A GRANT BASIS, WITH LOAN FUNDING PICKING UP DURING FY 76 TO COVER EXTERNAL COSTS THROUGH TO PROJECT TERMINATION. WE WOULD BE PREPARED TO CONSIDER ADDITIONAL LOAN

ACTIVITIES IN THE EDUCATION AREA THAT ARE CLOSELY RELATED TO THE MAINSTREAM OF WHAT WE HAVE BEEN DOING

IN EDUCATION, AND THAT INVOLVE NO U.S. LOCAL COST FINANCING.

8. POPULATION - WE REGARD POPULATION AS AN EXTREMELY IMPORTANT ACTIVITY IN ECUADOR. WE REALIZE, HOWEVER, THAT IT IS DOUBTFUL THAT THE GOE WILL BE PREPARED TO CONTINUE THE PROJECT ON A LOAN BASIS OR TO PROVIDE FULL GOE FUNDING SUBSEQUENTLY. THE USAID WILL HAVE TO DETERMINE THIS QUESTION IN DISCUSSION WITH THE GOE. IF THE GOE IS PREPARED TO UNDERTAKE A FIRM FINANCIAL COMMITMENT TO THE LOCAL COSTS OF THIS PROJECT, THE USAID SHOULD SUBMIT A PROP COVERING THE PERIOD BETWEEN NOW AND FY 77, STRUCTURED APPROPRIATELY SO THAT LOAN FUNDING CAN BEGIN AS SOON AS POSSIBLE AFTER THE END OF FY 75. IF THE GOE IS CLEARLY UNPREPARED TO UNDERTAKE THIS ACTIVITY, THE PROJECT SHOULD BE STRUCTURED SO AS TO TERMINATE AT THE EARLIEST REASONABLE POINT AND NO LATER THAN JUNE 30, 1976 WITH TERMINAL FUNDING FROM FY 75 GRANT FUNDS.

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9. AGRICULTURE -AS WE UNDERSTAND THE SITUATION, OUR CURRENTLY ACTIVE PROJECTS IN AGRICULTURE CONSIST OF ACTIVITIES SUPPORTING LOANS 032 AND 033 PLUS OCCASIONAL SHORT TERM TECHNICIAN CONSULTING SERVICES. SINCE THE LOANS BEING SUPPORTED WILL BE DISBURSED BY THE END OF FY 76 OR BEFORE (SEPTTEL FOLLOWS), WE PROPOSE TO OBLIGATE ALL NECESSARY FUNDS FOR THESE SERVICES FROM FY 75 GRANT FUNDS. THIS MEANS, IN EFFECT, THAT WE HAVE NO CURRENTLY ON-GOING PROJECTS ON WHICH TO BUILD A SUBSTANTIAL AGRICULTURE PORTION FOR THE PHASEOUT LOAN. THE DISCUSSION IN PARA 17, REF. (A), SUGGESTS AN ARRAY OF ACTIVITIES AS POSSIBILITIES AND THEN CONCLUDES WITH THE IDEA THAT SOME ADDITIONAL ACTIVITIES SHOULD SURFACE DURING THE NEGOTIATIONS. WE WOULD PREFER TO SEE A MORE FOCUSED PROPOSAL RELATING, IF POSSIBLE, TO AREAS WHERE WE HAVE PREVIOUSLY BEEN ACTIVE AND WHERE THERE ARE CONCRETE OPPORTUNITIES TO ESTABLISH OR REINFORCE LONG-TERM INSTITUTIONAL LINKAGES TO THE U.S. IT WOULD BE PREFERABLE TO AVOID BECOMING INVOLVED IN A COMPLEX OF ACTIVITIES WHERE WE HAVE LITTLE HOPE OF SEEING THEM THROUGH EVEN THEIR INITIAL PHASE. KEEPING IN MIND OUR LESS-THAN-OPTIMAL EXPERIENCE WITH LOAN DISBURSEMENT RATES WITH ECUADOR, (ONLY DOLS 1.2 MILLION DISBURSED IN FY 74 WITH A DOLS 21 MILLION PIPELINE) WE SUGGEST THAT

THE USAID PROVIDE SOME SPECIFIC, RELATIVELY MODEST ALTERNATIVES FOR CONSIDERATION.

10. NUTRITION - AS WE UNDERSTAND THE PRESENT NUTRITION PROJECT, IT CONSISTS OF ESSENTIALLY THE SERVICES OF

ONE MAN TO SUPPORT A NUTRITION PLANNING EFFORT WHICH IN THE NORMAL COURSE COULD BE TERMINATED BY THE END OF FY 76. WE THEREFORE PROPOSE THAT THE TOTAL COST OF THIS ACTIVITY BE FUNDED FROM FY 75 GRANTS.

11. HEALTH - GIVEN THE FACT THAT WE ARE ABOUT TO PROVIDE A DOLS 2.5 MILLION GRANT THROUGH THE DEIDS PROJECT, WE WOULD NOT BE FAVORABLY DISPOSED TO CONSIDER ADDITIONAL ACTIVITIES IN THE HEALTH AREA. IN TERMS OF THE POLITICAL
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ASPECTS OF THE TERMINATION, WE PRESUME THAT YOU WILL BE ABLE TO USE THE IMPENDING DEIDS AGREEMENT AS AN ELEMENT TO ASSIST YOU IN NEGOTIATING A SATISFACTORY PHASEOUT AGREEMENT.

12. ACTION REQUESTED - A. THE USAID SHOULD REVIEW THE FOREGOING COMMENTS AND REFINE PROPOSALS PREPARATORY TO PRESENTATION TO THE GOE. PRIOR TO SUCH PRESENTATION, HOWEVER, YOU SHOULD SUBMIT THE REVISED PROPOSALS FOR OUR CONSIDERATION. WE ARE PREPARED TO CONSIDER ANY NECESSARY TDY ASSISTANCE YOU MAY NEED IN REFINING THE PROPOSALS. (B) IN THE INTERIM, WHILE NEGOTIATING PROPOSAL IS BEING COMPLETED, WE BELIEVE AMBASSADOR SHOULD PROCEED TO INFORM GOE OF U.S. POLICY ALONG LINES PARA 4, REF B. THIS WILL PERMIT GOE TO BEGIN TO ADJUST AND PREPARE FOR SUBSEQUENT DISCUSSION OF SPECIFICS. KISSINGER

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